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STATE FOR EUR/RUS, EUR/NB, EEB/IFD  
TREASURY FOR TORGERSON, NORTON  
NSC FOR ELLISON

E.O. 12958: DECL: 10/01/2018

TAGS: EFIN ECON PREL RS IC

SUBJECT: ICELAND EMBASSY: RUSSIAN LOAN "STRICTLY  
FINANCIAL;" CLOSE BUT NOT DONE YET

REF: REYKJAVIK 224

Classified By: Charge d'Affaires Eric Rubin, Reasons 1.4 (b/d).

¶1. (C) Iceland's Moscow Deputy Chief of Mission, Magnus Hannesson, told us that the proposed loan from Russia is a strictly financial transaction. He insisted Iceland's economic fundamentals are sound but said the country needs assistance providing liquidity to its banking sector. Iceland's monetary authorities had begun soliciting support from friends and allies last spring, but to no avail. Hannesson explained that his government had felt it had no choice but to consider less conventional sources of financing, and that Russia was one of those sources. Loan discussions with Russia's Finance Ministry and Central Bank (CBR) began in the summer.

¶2. (C) Hannesson confirmed that a team of officials from Reykjavik would arrive the week of October 13 to negotiate the loan. Echoing Icelandic Central Bank statements to Embassy Reykjavik (reftel), he expressed confidence that the 4 billion Euro loan agreement would be concluded very soon. Hannesson said he would participate in the meetings between the GOI delegation and the GOR next week and would provide us with a readout.

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No Effect on Iceland's Foreign Policy  
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¶3. (C) Hannesson emphasized that Iceland's foreign policy would not change as a result of a loan agreement with Russia. He reiterated the loan was strictly financial and not a quid pro quo. Iceland was in need of funds; Russian officials had determined that Iceland was an acceptable risk. The GOI would be grateful to Russia but would not provide access to military installations or change its stance on any issue in exchange for the loan.

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Comment  
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¶4. (C) The Russian loan to Iceland strikes us yet another in a proliferating series of GOR "vanity" projects that Russia may no longer be able to afford. The financial crisis has hit Russia hard and the Russian economy is starting to feel the effects. The loan to Iceland suggests that the GOR has still not come to terms with this, nor with the country's rapid fall from economic grace. End Comment.

RUBIN